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Jewel Tea Co., Inc.

Annual Report

1957

Jewel Tea Co., Inc.

RESULTS IN BRIEF

(Combining, for 1957 and 1956, Jewel Tea Co., Inc. and Eisner Grocery Company with which it merged in March, 1957. In computing earnings per share, common stock issued in this connection has been considered to be outstanding during all of 1957 and 1956.)

| | 1957 | 1956 |
|--|----------------------|----------------------|
| Retail Sales: | | |
| Retail Food Stores | \$336,606,569 | \$307,799,753 |
| Home Service Routes | <u>77,859,246</u> | <u>77,753,716</u> |
| Total | <u>\$414,465,815</u> | <u>\$385,553,469</u> |
| Earnings: | | |
| Before federal income taxes | \$ 14,255,812 | \$ 12,768,943 |
| Net for the year | 6,960,812 | 6,339,943 |
| Per cent to sales and revenues | 1.7% | 1.6% |
| Reinvested in the business | 3,145,608 | 3,438,305 |
| Earned per share of common stock..... | \$4.61 | \$4.22 |
| Cash dividends paid per share of Jewel common stock | 2.00 | 2.00 |
| Dividends declared in common stock (2%) to be issued January 31, 1958 | 29,259 shares | |
| New property, plant and equipment (net) | \$ 6,535,915 | \$ 7,346,564 |
| Depreciation provision | 4,216,154 | 3,511,371 |
| Net working capital | \$ 30,985,204 | \$ 29,762,608 |
| Ratio of current assets to current liabilities | 2.1 to 1 | 2.1 to 1 |
| Operating Units: | | |
| Number of Retail Food Stores | 227 | 227 |
| Square feet of floor space | 2,108,310 | 1,963,712 |
| Number of Home Service Routes | 1,941 | 2,000 |
| Shareowners | 7,557 | 7,572 |
| Common shares outstanding | 1,462,921 | 1,446,449 |
| Preferred shares outstanding | 58,319 | 59,039 |
| Employees | 9,344 | 9,120 |

Jewel Tea Co., Inc.

MANAGEMENT'S REPORT

February 6, 1958

To Jewel Shareowners, Employees and Other Friends:

We are pleased to report on results for 1957 which again show new records in both sales and earnings. Sales were up 7.5% and totaled \$414,465,815. Net earnings were \$6,960,812 or \$4.61 per share of common stock, a gain of 9.8% from comparable figures a year ago. These results and comparisons with 1956 include the operations of Eisner Grocery Company, acquired on March 12, 1957.

During the year, fourteen new stores were opened, one in the Eisner territory and thirteen in the Chicago Metropolitan Area. Fourteen outmoded stores were closed, leaving 227 stores in operation at the close of the year.

At the beginning of 1958, seventeen new supermarkets were under construction. Plans for additional stores are sufficiently advanced to make us believe that a minimum of 35 store units will be opened this year. Smaller inadequate stores will continue to be closed, with the exact number depending on profitability and competitive developments.

An important factor affecting our competitive situation was the introduction of trading stamps into the Chicago area by two large food chains on September 30, 1957. Information from other parts of the country where trading stamps had been in use for some time, indicated that this method of attracting customers loses much of its appeal after the excitement of introductory promotion. Rather than offer stamps for a relatively short-term sales advantage, and risk a long-term increase in expense and also the attractive values now available to our customers, we stepped up other promotional activities. Temporarily, this action raised costs at the expense of earnings. Sales comparisons with a year ago, however, continued favorable for the Jewel Stores in the Chicago trading stamp area and since the turn of the year this has also been true of earnings.

The Home Service Routes program of expanding metropolitan operations and curtailing operations in sparsely-settled communities is progress-

ing as planned. There was a net decrease of 59 routes during the year as the first phase of the program went ahead rapidly. All of the reduction in the number of routes in operation occurred during the first half of the year; there was a net gain of six routes during the last half. For the first half of 1958 we have budgeted 30 new routes.

Progress in developing regional distribution centers for the Home Service Routes is on schedule. The five centers now in operation serve 150 to 250 routes each, compared with approximately 30 routes each for the small branches which they replaced. These changes improved the profits from our Home Service Routes. In 1958 three more centers, located near Cincinnati, Ohio; Detroit, Michigan; and in northern California will be in operation. This will complete our present program for developing division distribution centers, which will then serve approximately 70% of our present routes.

It is expected that our store growth program will make it necessary to add approximately 200,000 sq. ft. to the dry grocery warehouse in Melrose Park, Illinois, by the fall of 1958. Manufacturing activities at our Barrington, Illinois, plant are also expanding and it may be necessary to add space at this location during the year.

The budgeted needs for capital assets and working capital in 1958 will substantially exceed the amounts used for these purposes in 1957. It is contemplated that Jewel will borrow additional funds this year to supplement those generated internally from depreciation and retained earnings. Any additional debt, however, will not be excessive and will preserve a well balanced capitalization.

Personnel development received special attention in 1957 because of the demands of our growth programs in 1958 and beyond. Jewel Food Stores commemorated their 25th Anniversary Year with an extensive appraisal of operating, merchandising and personnel practices, with resulting constructive suggestions which will help to guide our operations in the future.

Our Package Plan of group insurance was improved through the addition of a major medical expense insurance feature, helping to free our employees from worries over possible long-term illnesses. The retirement program was also liberalized through permitting larger personal contributions by some of the participants. Both of these programs are supported by joint contributions from employees and the company.

Mindful of the continued development of management skills that will be needed in coming years, Jewel established a college scholarship program for part-time high school teenagers, and co-operated in organizing a course in industrial management by the University of Illinois. These supplement Jewel's summer program for college students and support of the Curriculum in Food Distribution at Michigan State University. In 1958 we will also undertake an extensive cataloguing of management skills available and needed over the next five to ten years.

Our country entered 1958 with a general business recession under way. However, our sales and earnings have continued favorable as they did in the earlier postwar business recessions of 1949 and 1954. Most economists agree that disposable personal income, a major determinant of the basic demand for food and other merchandise, will not experience a drastic decline. We therefore look upon the current situation as an opportunity to push ahead with our growth programs.

We are grateful for the wonderful support we have received from Jewel and Eisner people this past year, and we believe that our organization has the depth and strength to carry forward our ambitious plans for a larger and more profitable business.

R. L. Clements
President

For the Board of Directors

J. H. Lending
Chairman

Jewel Tea Co., Inc.

TEN YEAR REVIEW (Jewel and Eisner combined for all years)

OPERATING RESULTS

| <u>Year</u> | <u>Retail Sales*</u> | <u>Payments To or For Employees*</u> | <u>Depreciation Provision*</u> | <u>Net Earnings Per Common Share</u> |
|-------------|----------------------|--------------------------------------|--------------------------------|--------------------------------------|
| 1948 | \$175,818 | \$26,348 | \$1,213 | \$3.27 |
| 1949 | 192,819 | 28,883 | 1,679 | 3.35 |
| 1950 | 212,463 | 31,443 | 1,869 | 3.44 |
| 1951 | 236,644 | 34,439 | 2,166 | 2.80 |
| 1952 | 255,227 | 37,573 | 2,314 | 2.47 |
| 1953 | 275,785 | 41,044 | 2,348 | 2.43 |
| 1954 | 314,162 | 45,981 | 2,919 | 3.13 |
| 1955 | 348,215 | 49,591 | 3,423 | 3.59 |
| 1956 | 385,553 | 54,284 | 3,511 | 4.22 |
| 1957 | 414,466 | 58,849 | 4,216 | 4.61 |

FINANCIAL GROWTH

| <u>At Year End</u> | <u>Working Capital*</u> | <u>Property, Plant and Equipment* (At Book Value)</u> | <u>Shareowners' Investment*</u> | <u>Total Assets*</u> |
|--------------------|-------------------------|---|---------------------------------|----------------------|
| 1948 | \$13,738 | \$ 9,327 | \$22,763 | \$35,427 |
| 1949 | 14,443 | 10,984 | 25,015 | 38,159 |
| 1950 | 16,489 | 11,595 | 28,630 | 46,468 |
| 1951 | 24,020 | 13,403 | 29,953 | 54,643 |
| 1952 | 25,211 | 13,040 | 31,096 | 55,026 |
| 1953 | 28,307 | 15,316 | 36,700 | 63,532 |
| 1954 | 24,095 | 21,321 | 38,909 | 69,012 |
| 1955 | 30,147 | 22,378 | 41,470 | 77,114 |
| 1956 | 29,763 | 26,443 | 45,016 | 86,659 |
| 1957 | 30,985 | 28,763 | 48,870 | 90,496 |

*In thousands of dollars

TOUCHE, NIVEN, BAILEY & SMART
CERTIFIED PUBLIC ACCOUNTANTS

208 SOUTH LA SALLE STREET
CHICAGO 4, ILL.

February 3, 1958.

THE BOARD OF DIRECTORS,
JEWEL TEA CO., INC.:

We have examined the consolidated balance sheet of Jewel Tea Co., Inc. and consolidated subsidiary as of December 28, 1957, and the related statement of income and accumulated earnings for the fifty-two weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statement of income and accumulated earnings present fairly the financial position of Jewel Tea Co., Inc. and consolidated subsidiary at December 28, 1957, and the consolidated results of their operations for the fifty-two weeks then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche, Niven, Bailey & Smart
Certified Public Accountants.

Jewel Tea Co., Inc.

CONSOLIDATED INCOME ACCOUNT AND ACCUMULATED EARNINGS—UNAPPROPRIATED (Jewel and Eisner combined for both years)

| | 52 Weeks Ended Dec. 28, 1957 | 52 Weeks Ended Dec. 29, 1956 |
|--|------------------------------------|------------------------------------|
| SALES AND REVENUES: | | |
| Retail sales | \$414,465,815 | \$385,553,469 |
| Other sales and revenues | <u>3,317,197</u> | <u>2,977,235</u> |
| Total sales and revenues | <u>417,783,012</u> | <u>388,530,704</u> |
| COST OF DOING BUSINESS: | | |
| Paid to or for the benefit of employees.. | 58,848,845 | 54,283,791 |
| Products, materials, services, rents and interest | <u>335,931,351</u> | <u>314,427,047</u> |
| Depreciation | 4,216,154 | 3,511,371 |
| Maintenance and repairs | 1,440,221 | 1,174,486 |
| Doubtful accounts | 1,061,283 | 735,037 |
| Federal income taxes | 7,295,000 | 6,429,000 |
| State, local and all other federal taxes.. | <u>2,029,346</u> | <u>1,630,029</u> |
| Total cost of doing business | <u>410,822,200</u> | <u>382,190,761</u> |
| NET EARNINGS FOR THE YEAR..... | <u>6,960,812</u> | <u>6,339,943</u> |
| Accumulated Earnings—Unappropriated | | |
| Beginning of Year—Jewel Tea Co., Inc. | 21,477,832 | 18,660,447 |
| Eisner Grocery Co. | <u>3,977,214</u> | <u>3,356,294</u> |
| | <u>32,415,858</u> | <u>28,356,684</u> |
| DEDUCT: | | |
| Cash dividends declared: | | |
| Jewel preferred stock | 219,049 | 231,312 |
| Jewel common stock | 3,596,155 | 2,604,326 |
| Former Eisner stock | | 66,000 |
| Appropriation for 2% stock dividend (29,259 shares at \$58 per share) | <u>1,697,022</u> | <u> </u> |
| | <u>5,512,226</u> | <u>2,901,638</u> |
| ACCUMULATED EARNINGS— | | |
| UNAPPROPRIATED END OF YEAR | <u>\$ 26,903,632</u> | <u>\$ 25,455,046</u> |

See accompanying notes to consolidated financial statements.

Jewel Tea Co., Inc.

CONSOLIDATED BALANCE SHEET (Jewel and Eisner combined at both dates)

| ASSETS | Dec. 28, 1957 | Dec. 29, 1956 |
|---|---------------------|---------------------|
| Current Assets: | | |
| Cash | \$ 8,268,826 | \$ 8,849,408 |
| Marketable securities—lower of cost or market | 9,542,002 | 9,185,159 |
| Accounts receivable, less allowances... | 10,170,515 | 8,903,453 |
| Inventories | 28,036,668 | 28,607,201 |
| Temporary investment in retail store properties | 2,148,880 | 1,253,736 |
| Prepaid expenses and supplies..... | <u>1,072,442</u> | <u>949,993</u> |
| Total current assets..... | <u>59,239,333</u> | <u>57,748,950</u> |
| Deferred Charge— | | |
| Premiums Advanced to Customers..... | 1,501,770 | 1,628,493 |
| Other Investments | 991,841 | 782,655 |
| Property, Plant and Equipment..... | 28,762,881 | 26,443,120 |
| Goodwill | <u>1</u> | <u>55,977</u> |
| | <u>\$90,495,826</u> | <u>\$86,659,195</u> |
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts payable and accrued expenses | \$14,115,859 | \$15,952,010 |
| Dividends payable | 800,764 | 85,349 |
| Accrued federal, state and local taxes... | 7,833,155 | 7,344,607 |
| Accrued payrolls and profit sharing.... | 5,210,746 | 4,311,943 |
| Long term indebtedness due within one year | <u>293,605</u> | <u>292,433</u> |
| Total current liabilities..... | <u>28,254,129</u> | <u>27,986,342</u> |
| Long Term Indebtedness, less due within one year | <u>12,620,001</u> | <u>13,153,606</u> |
| Deferred Federal Income Taxes..... | <u>752,000</u> | <u>502,834</u> |
| Shareowners' Investment: | | |
| Preferred stock | 6,900,000 | 6,900,000 |
| Common stock: | | |
| Outstanding at year end..... | 13,144,040 | 12,375,188 |
| Stock dividend to be issued January 31, 1958 | 1,697,022 | |
| Accumulated earnings—reserved for self-insured losses and general contingencies | 1,250,000 | 1,250,000 |
| Accumulated earnings—unappropriated | 26,903,632 | 25,455,046 |
| Preferred stock in treasury..... | <u>(1,024,998)</u> | <u>(963,821)</u> |
| Total shareowners' investment..... | <u>48,869,696</u> | <u>45,016,413</u> |
| | <u>\$90,495,826</u> | <u>\$86,659,195</u> |

See accompanying notes to consolidated financial statements.

Jewel Tea Co., Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MERGER WITH EISNER GROCERY COMPANY

On March 12, 1957, Eisner Grocery Company was merged with Jewel Tea Co., Inc., 142,000 shares of common stock being exchanged for all capital shares of Eisner Grocery Company. The accounts of these companies have been combined for the two years for comparative purposes. Equity in capital stock of and advances to Eisner Realty Corporation, an unconsolidated wholly-owned subsidiary of Eisner Grocery Co., aggregated \$762,730 at December 28, 1957 and are included in Other Investments.

INVENTORIES

Inventories are valued at the lower of first-in, first-out cost or market, except that green coffee cost (\$1,454,054) is determined under the last-in, first-out method.

PROPERTY, PLANT AND EQUIPMENT

| | Dec. 28, 1957 | Dec. 29, 1956 |
|---------------------------------|---------------------|---------------------|
| Cost: | | |
| Land | \$ 1,591,146 | \$ 1,491,781 |
| Buildings | 10,359,740 | 10,161,616 |
| Equipment | 36,470,125 | 32,309,048 |
| Total cost | 48,421,011 | 43,962,445 |
| Allowance for depreciation..... | 19,658,130 | 17,519,325 |
| Net | <u>\$28,762,881</u> | <u>\$26,443,120</u> |

LONG TERM INDEBTEDNESS

Consists principally of the following unsecured loans:

| | Rate | Total Outstanding | Final Maturity |
|---------------------------|-------|-------------------|----------------|
| Insurance Companies | 2.85% | \$5,000,000 | 1971 |
| Insurance Companies | 3.75 | 4,565,200 | 1978 |
| Banks | 2.75 | 2,040,000 | 1961 |
| Insurance Company | 4 1/8 | 764,500 | 1971 |

Aggregate annual repayment requirements on total long term debt for each of the next 5 years follows:

1958, \$534,000; 1959, \$534,000; 1960, \$317,000; 1961, \$1,854,000; 1962, \$794,000.

Interest on long term indebtedness totaled \$442,183 in 1957.

PREFERRED STOCK—STOCK IN TREASURY

Preferred stock is 3.75% cumulative \$100 par value, and 69,000 shares were authorized and issued at December 28, 1957.

Under the sinking fund provisions relating to the preferred stock, the Company must acquire annually on or before each June 30th at least 1,500 shares. On December 28, 1957, there were 10,681 shares of preferred stock in the treasury valued at the acquisition cost of \$1,024,998, of which 9,181 shares are earmarked for sinking fund requirements through June 30, 1959 and part of the 1960 requirements.

COMMON STOCK

Common stock of \$1 par value per share consists of 1,800,000 authorized shares. At December 28, 1957, there were 1,462,921 shares issued and outstanding.

During 1957, 4,472 shares were issued to employees under terms of a stock purchase plan and the proceeds of \$205,933 credited to the Common Stock Account. Also, 12,000 shares were issued to profit sharing retirement trusts. These shares were stated at 95% of market price at date of issue, an aggregate of \$562,920. At December 28, 1957, 4,492 additional shares were under contract to employees.

A total of 142,000 shares of stock was issued in March, 1957, in exchange for all of the capital stock of Eisner Grocery Company.

RESTRICTED STOCK OPTION PLAN

Under a plan adopted in 1956, 75,000 shares of the Company's common stock were reserved for issuance of restricted stock options to certain key personnel, at prices not less than 95% of the market price on the dates granted.

At December 28, 1957, options as to 57,500 shares had been granted at prices ranging from \$47.03 to \$51.54 per share, 12,500 of which were exercisable, but had not been exercised, at that date.

ACCUMULATED EARNINGS (Unappropriated)

Under the terms of note agreements with insurance companies and the preferred stock provisions of the certificate of incorporation (the terms of the note agreements governing) \$14,621,147 is not restricted as of December 28, 1957 for cash dividends on common stock.

LONG TERM LEASES

Nearly all retail food stores and branch office-warehouse properties are under lease. A majority of lease commitments are for 10 years or less and the remainder, for the most part, cover periods up to 20 years. The annual minimum commitments for leases expiring beyond five years total approximately \$2,170,000. Rentals for all leased properties in 1957 totaled \$3,159,617, of which \$112,086 was paid to an unconsolidated wholly-owned subsidiary and other affiliates.

Jewel Tea Co., Inc.

Directors

| | | |
|-------------------|-----------------|-----------------|
| G. L. CLEMENTS | A. V. JANNOTTA | M. S. MORSE |
| A. EISNER, JR. | F. J. LUNDING | J. M. O'CONNOR |
| J. M. FRIEDLANDER | E. H. McDERMOTT | F. L. SPREYER |
| W. A. GERBOSI | E. A. MILLER | H. J. SZOLD |
| E. E. HARGRAVE | S. R. MILLER | R. R. UPDEGRAFF |

H. S. BOWERS, *Director Emeritus*

Officers

| | |
|------------------------|---|
| F. J. LUNDING..... | <i>Chairman of Board of Directors</i> |
| G. L. CLEMENTS..... | <i>President</i> |
| J. M. FRIEDLANDER..... | <i>Chairman of Finance Committee</i> |
| J. A. BREWER..... | <i>Vice Pres. Mfg., Warehousing and Transp.</i> |
| E. E. HARGRAVE..... | <i>Vice Pres. Administration</i> |
| E. A. MILLER..... | <i>Vice Pres. Marketing</i> |
| M. S. MORSE..... | <i>Vice Pres. Stores Operating</i> |
| J. M. O'CONNOR..... | <i>Vice Pres. Imports</i> |
| H. R. RASMUSSEN | <i>Vice Pres. Stores Merchandising</i> |
| F. L. SPREYER | <i>Vice Pres. Eisner Operations</i> |
| E. R. STANLEY..... | <i>Vice Pres. Routes</i> |
| R. D. STURTEVANT | <i>Vice Pres. Real Estate and Construction</i> |
| H. G. HOMUTH..... | <i>Treasurer</i> |
| W. W. TONGUE | <i>Economist</i> |
| H. O. WAGNER | <i>Controller</i> |
| R. W. WILLIAMSON..... | <i>General Counsel and Secretary</i> |
| E. T. VORBECK | <i>Gen. Attorney and Asst. Secretary</i> |

Jewel Tea Co., Inc.

A New York Corporation

Principal Offices

| | |
|---|--|
| <i>Chairman, Board of Directors and Chairman, Finance Committee</i> | 135 South LaSalle Street, Chicago 3, Illinois |
| <i>President and Executive</i> | 1955 West North Avenue, Melrose Park, Illinois |
| <i>Jewel Food Stores</i> | 3617 South Ashland Avenue, Chicago 9, Illinois |
| <i>Home Service Routes</i> | Jewel Park, Barrington, Illinois |
| <i>Importing</i> | 99 Wall Street, New York City |
| <i>Eisner Grocery Company</i> | 301 East Wilbur Heights Road, Champaign, Illinois |

Stock Listing

\$1 Par Common Stock and 3½% Cumulative Preferred Stock
listed on the New York Stock Exchange

Transfer Agent

Manufacturers Trust Company, 55 Broad Street,
New York 15, N. Y.

Registrar

Bankers Trust Company, 16 Wall Street,
New York 15, N. Y.

Annual Meeting

The Annual Meeting of stockholders will be held at 12:00 noon on
Tuesday, March 25, 1958, at the Biltmore Hotel in New York City.

This report is submitted to the shareowners of the Corporation for their information and is not intended to be used in connection with the sale of or offer to sell any securities, nor is it intended to be information to be included in a prospectus within the meaning of the provisions of the Federal Securities Act of 1933, as amended.

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